



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

September 08, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Lubbock National Bank
Charter Number 16752**

**4811 50th Street
Lubbock, TX 79493**

**Comptroller of the Currency
Lubbock Field Office
5225 South Loop 289 Suite 108
Lubbock, TX 79424**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory..

Lubbock National Bank (LNB) has a satisfactory record of meeting community credit needs. This is based on the following:

- The bank's loan-to-deposit ratio is reasonable and averaged 65 percent during the evaluation period. LNB's loan-to-deposit ratio increased from 47 percent at the March 8, 1999 review to 70 percent as of June 30, 2005.
- A substantial majority of LNB's loans are within the bank's assessment areas. Approximately 92 percent of the number of loans and 89 percent of the dollar volume of loans were to borrowers within the assessment area.
- LNB's distribution of loans to businesses and individuals of different income (including low- and moderate-income) levels is reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- LNB's community development performance demonstrates adequate responsiveness to the community development needs of its assessment areas.
- There have been no complaints with respect to LNB's CRA performance.

SCOPE OF EXAMINATION

This Performance Evaluation is based on three distinct time periods: January 1, 2000 through December 31, 2002 (2000 – 2002 Evaluation Period), January 1, 2003 through December 31, 2003 (2003 Evaluation Period) and January 1, 2004 through December 2004 (2004 Evaluation Period). The first time period was evaluated using 1990 Census demographic information and the second evaluation period used 2000 Census demographic information. The third evaluation period was based on the 2000 Census demographic information, but also includes the revised MSA boundaries and definitions established by the Office of Management Budget. Some differences in demographic information are evident between the two Censuses. Refer to the Description of Assessment Areas section of this evaluation for the facts and data.

Conclusions regarding the Lending Test are based primarily on small business loans from the 2002 through 2004 Evaluation Periods. In addition, HMDA reportable loans were considered for the period 2000 through 2004. For the Community Development Test, the evaluation period starts from the ending date of the last CRA evaluation period to the start date of the current CRA examination. This evaluation period is March 8, 1999 through September 8, 2005.

Data Integrity

Prior to September 1, 2005, LNB was subject to Large Bank CRA data collection requirements. As a result, a data integrity review was conducted in December 2004 to determine the accuracy of LNB's loan data to be used at this evaluation. Samples of CRA small business loans and small farm loans, and HMDA loans made by the bank in 2003, and through September 30, 2004 were included in the review. Information regarding HMDA and CRA loan data was substantially inaccurate and documentation supporting the community development loans, investments, and services was limited. The bank reviewed and re-verified the data to be used at this evaluation. We also reviewed all of the bank's community development investments, community development loans and services to ensure they met the definition for community development.

Selection of Areas for Full-Scope Review

LNB has designated three assessment areas (AAs), which consist of Lubbock County, College Station/Bryan MSA, and Austin/Round Rock MSA. For the 2002, 2003, and 2004 Evaluation Periods, we performed full-scope reviews for the Lubbock County AA. This AA was selected for a full-scope review because it comprises the substantial share of LNB's business activity. For all evaluation periods, a substantial majority of lending activity and deposits were in the Lubbock County AA.

The following chart shows a summary of the assessment areas evaluated for each period and the census data used for the period. Primary consideration for performance under the lending test is given to areas where full scope reviews are performed.

Lubbock National Bank Assessment Areas				
Evaluation Period	Lubbock County AA	College Station/Bryan MSA AA	Austin MSA AA	Census Data
2000 – 2002	Full Scope	Limited Scope	Limited Scope	1990
2003	Full Scope	Limited Scope	Limited Scope	2000
2004	Full Scope	Limited Scope	Limited Scope	2000

DESCRIPTION OF INSTITUTION

Lubbock National Bank (LNB) is a \$420 million dollar intrastate institution that is headquartered in Lubbock, Texas in the South Plains area of the state. The bank has six branches in Texas, four in Lubbock, one in College Station, and one location in Austin. LNB is the only banking subsidiary of the holding company, Commerce National Financial Services, Inc. (CNFS). The holding company also owns the Commerce National Talkington Statutory Trust, which holds the company's interest in the Trust Preferred Securities. As of December 31, 2004, CNFS's assets totaled \$411 million, with LNB comprising 99.9 percent of assets.

LNB is primarily a commercial lender, and loan volumes are concentrated in commercial loans and commercial real estate development loans. The bank is a Preferred SBA lender. LNB also originates mortgage loans and consumer loans. The mortgage department originates conventional, FHA, and VA residential loans which are sold into the secondary market. The following table reflects the composition of the bank's loan portfolio as of June 30, 2005.

Loan Portfolio Composition as of June 30, 2005		
Loan Category	\$ (000)	%
Commercial Real Estate	106,672	39.86
Commercial and Industrial	61,818	23.10
Residential Real Estate	43,882	16.40
Construction	36,628	13.68
Consumer	8,709	3.25
Multi-Family Real Estate	5,684	2.12
Agricultural Real Estate	1,576	0.59
Agricultural Production	47	0.02
Other	2,613	0.98
Total	267,629	100.00

Source: June 30, 2005 Report of Condition and bank records

LNB provides a wide range of traditional deposit and loan products. The branches are generally located in areas that make them accessible to persons from different areas of the communities they serve. Lobby hours and drive up hours are set by location to meet customer needs, and LNB has ATMs at branches and other locations in their market to make customer accounts accessible. The following table reflects the composition of the bank's banking and ATM locations in all AAs.

Distribution of Bank Offices and ATMs by Census Tract						
Census Tract Income Level	Tracts		Full-Service Branches		Automated Teller Machines*	
	#	%	#	%	#	%
Low	23	6.4	0	0.0	3	15.0
Moderate	101	28.3	1	16.7	5	25.0
Middle	143	40.1	2	33.3	7	35.0
Upper	87	24.4	3	50.0	5	25.0
N/A	3	0.8	N/A	0.0	N/A	0.0
Total	357	100.0	6	100.0	20**	100.0

*ATMs are non-deposit taking; **Includes six ATMs that are contiguous with banking locations. 2005 Census Information

Customers may also access their accounts through telephone banking or by the Internet (www.lubbocknational.com). Internet and phone banking services include transfers between LNB accounts, review of balances or transactions, and bill-paying capability for the Internet banking product. The bank also offers a Visa Check Card that provides customers with additional access to their accounts at point of sale or ATM locations.

LNB's business strategy includes continued marketing of commercial credit to mid-sized businesses where bank management feels it is best suited to meet the customer needs through its products, staff, and locations. Products such as the streamlined SBA program and the bank's in-house accounts receivable factoring program are two benefits that LNB can provide to small businesses. In addition, enhancements are planned to the mortgage department and the consumer lending products and services to ensure that the bank continues to meet the consumer needs of its customers. The bank reported more than \$34 million in Tier 1 Capital as of June 30, 2005. This represents 8.08 percent of adjusted average assets. Given LNB's products and services and accessibility to customers, the bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

The AAs are reasonable in that a substantial majority of the bank’s loans are made to borrowers within these areas, and all the bank’s offices are located in the AAs. The AAs do not arbitrarily exclude any low- and moderate-income areas. The following provides information regarding the AAs and further information can be obtained from the bank’s public file.

DESCRIPTION OF LUBBOCK COUNTY ASSESSMENT AREA

Performance in the Lubbock County AA is given more consideration as a significant majority of the number and volume of the bank’s loans and deposits are in the AA. Also, the main bank and three branches are located in the city of Lubbock. Lubbock County is located in the South Plains area of Texas, with the city of Lubbock as the county seat and largest city in the county. Demographic information from the 2000 census is reflected on the following chart.

Demographic and Economic Characteristics of Lubbock County AA	
<i>Population</i>	
Population	242,628
Number of Families	60,685
Number of Households	92,685
<i>Geographies</i>	
Number of Census Tracts/BNA	61
% Low-Income Census Tracts/BNA	1.64
% Moderate-Income Census Tracts/BNA	31.15
% Middle-Income Census Tracts/BNA	42.62
% Upper-Income Census Tracts/BNA	24.59
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	40,724
2004 HUD-Adjusted MFI	47,000
<i>Economic Indicators</i>	
Unemployment Rate	2.93
2004 Median Housing Value	64,726
% of Households Below Poverty Level	18.00

Source: 2000 Census data and 2004 HUD updated income data.

The Lubbock County AA experienced changes between the 1990 and 2000 census. According to the 1990 census, the AA included 63 census tracts, and the total population was 223 thousand. Eight of the census tracts were low-income, eleven were moderate-income, twenty-eight were middle-income, and fourteen were upper-income. Two of the tracts were not classified, which is where Texas Tech University is located. Census tract characteristics changed as a result of the 2000 Census. Lubbock County contains 61 tracts following the census, all of which are categorized by income level. Only one tract is now designated as low-income, moderate-income tracts have risen to nineteen, twenty-six are middle-income, and fifteen are upper-income. The population increased to 243 thousand. Significant differences were also noted in the weighted average of median housing costs, which rose from \$53 thousand in 1990 to \$65 thousand in 2000. Conversely, the updated median family income only rose from \$46 thousand in 1990 to a 2004 HUD updated level of \$47 thousand.

The bank has two offices in middle-income tracts located near the low- and moderate-income tracts. With only one CT designated as low-income, LNB’s opportunity to lend in the tract is somewhat limited. It should also be noted that the single low-income tract is currently undergoing redevelopment, resulting in the demolition of the majority of existing homes and structures and being replaced with new one-to-four family residences, apartments, and new businesses. This

redevelopment will significantly reduce the number of low- or moderate-income residents in that area.

The Lubbock economy has been growing, and projections indicate the growth will continue. The area is primarily reliant on agriculture, but Texas Tech University also contributes significantly to the economy. Primary employers are Covenant Healthcare Systems, Texas Tech University, Texas Tech Health Sciences Center, University Medical System, and United Supermarkets. The unemployment rate is low, and the economy has been stable to growing. At 3.4 percent as of July 2005, unemployment is above historical levels. The local agriculture economy continues to suffer because of declining government subsidies of agricultural products, and increased production and transportation costs. Government and professional jobs are increasing, as is the number of retirees in the community. Retirees are drawn to Lubbock by the lower cost of living and favorable overall weather conditions.

Lubbock has a lower level of owner-occupied housing than in other comparable cities, likely due to the population of college students. There are a large number of rental units, and bank management states that a high number of new construction projects have been to build duplexes, etc., to house college students. Per the report from the Economy.com website, the average price for existing housing has declined slightly from \$92 thousand in 2004 to \$91.4 thousand in 2005. However, housing prices are significantly below national averages, contributing to the incentive for individuals to move to the area. Generally, the cost of living, including housing, is below many areas nationally. 2000 Census data shows that the level of occupied housing is 54 percent, and rental occupied units are 38 percent of total housing.

Deposits from customers within Lubbock County as of June 30, 2004 were \$325 thousand, or 87.7 percent of the bank's total deposits. For June 30, 2004, LNB's deposit market share in Lubbock was 8.24 percent. The bank is fifth in market share of deposits in the area. The other institutions have a total of 72 branches, reflecting a high level of competition in the AA. In Lubbock, PlainsCapital Bank had 28 percent of deposits, American State Bank had 15 percent, and City Bank had 12 percent. These institutions were all locally owned and have multiple branches within the AA. In addition, LNB faces significant competition from branches of large multi-national banks including Wells Fargo and Bank of America.

Two individuals in the community were interviewed for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. The individuals indicated that there is an on-going need for affordable housing for low- and moderate-income families. The individuals stated that local institutions offer programs to meet this need. However, one stated that if banks could lower the minimum loan amount, it could help some individuals by allowing them to build a credit history. To assist low- or moderate-income applicants, LNB participates in the Welcome Home program and other initiatives that provide funds for closing costs or that reduce down payment requirements for borrowers.

DESCRIPTION OF COLLEGE STATION/BRYAN MSA ASSESSMENT AREA

In the College Station/Bryan MSA AA, LNB operates under the name of Commerce National Bank, branch of Lubbock National Bank. The AA is comprised of three counties, Brazos, Burleson, and Robertson Counties. The AA is located 100 miles northwest of Houston and 120 miles east of Austin. There is a single full-service branch location in the AA with drive-up facilities and an ATM at the same location. In addition, the bank has ATMs at three other businesses in College Station. The College Station/Bryan AA demographic profile from the 2000 census is shown in the following chart.

Demographic and Economic Characteristics of College Station/Bryan MSA AA	
<i>Population</i>	
	184,885
Number of Families	39,687
Number of Households	67,686
<i>Geographies</i>	
Number of Census Tracts/BNA	40
% Low-Income Census Tracts/BNA	2.50
% Moderate-Income Census Tracts/BNA	30.00
% Middle-Income Census Tracts/BNA	47.50
% Upper-Income Census Tracts/BNA	17.50
% N/A Census Tracts/BNA	2.50
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	43,916
2004 HUD-Adjusted MFI	50,700
<i>Economic Indicators</i>	
Unemployment Rate	4.04
2004 Median Housing Value	81,959
% of Households Below Poverty Level	26.00

Source: 2000 Census data and 2004 HUD updated income data.

The area changed between the 1990 and 2000 census reports from a single county, Brazos County, to a three-county area with the addition of Burleson and Robertson Counties. Population totals increased from 122 thousand in 1990 to 185 thousand in 2000. The addition of the other counties and other tract changes took the number of tracts from 24 in 1990 to 40 in 2000. In 1990, the census reported two low-income tracts, six moderate-income tracts, ten middle-income tracts, and four upper-income tracts; two tracts are not categorized by income level. Of the 40 tracts reported in 2000, one was designated as low-income, 12 were moderate-income; 19 middle-income, and seven upper income with one tract undesignated by income level. In addition to the population changes, the updated median family income went up from \$46 thousand in 1990 to \$50.7 thousand in 2004. Unemployment increased from 2.81 percent to 4.04 percent. Median housing values increased significantly from \$65 thousand to \$82 thousand.

The AA is a rapidly growing area, and a major university, Texas A & M University, is located in this MSA as well. The large student body, reported at 45,000 students, is a major factor in the growth of retail businesses, entertainment, and restaurant locations in the recent years. Based on information from the website of Economy.com, the population of the area has grown steadily, and projections are for continued growth. The population growth was reported at 2.3 percent. The employment growth has been significant in construction, professional, and information industries. This is consistent with the information provided by the community contact, that construction is very active, both for

residential and commercial buildings. Also, a number of businesses employing persons with doctorate degrees and a number of research firms have started in the AA. The contact also reported that the university is actively pursuing more research grants to increase the university's funding from that source. This further increases the demand for persons with graduate and post-graduate training, as well as those with information technology skills.

The branch is located in a moderate-income tract of the AA. In the AA, only one tract is designated as low-income, and only 2.3 percent of households are located in that area. This limits the volume of lending opportunities available to the bank in that area. Owner-occupied housing is only 46 percent in the area, and rental occupied units represent 44 percent of housing available. This is consistent with the level of students in the area.

As of June 30, 2004, the bank ranked 13th of 16 institutions in the AA, with \$29 million in deposits or 1.38 percent of the deposit market share. In the AA, First American Bank (now CitiBank) had 26 percent, Wells Fargo had 15 percent, FNB Bryan had 14.5 percent, and Planters Bank had 7.6 percent of deposits. The 15 institutions in the AA (not including LNB) operate a total of 50 branches, reflecting a significant level of competition for deposits there.

An individual in the community was interviewed for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. The individual did not identify any unmet credit needs in the area. The individual stated that there are a number of entities in the AA that provide or support affordable housing for low- or moderate-income families. The individual reported that the volume of construction both for residential and commercial purposes continues to be strong. Response of the local financial institutions is good with some local banks investing significantly in the Economic Development Center to attract new business and to promote growth of existing businesses.

DESCRIPTION OF AUSTIN/ROUND ROCK MSA ASSESSMENT AREA

In the Austin/Round Rock MSA AA, LNB operates under the name of Commerce National Bank, branch of Lubbock National Bank. The AA is comprised of five counties with 256 census tracts. There is a single full service branch location in the AA with drive up facilities and an ATM at the same location. In this AA, management reports the bank's primary loan product is commercial real estate development, and deposits levels are low. The Austin-Round Rock MSA AA demographic profile from the 2000 census is in the following chart.

Demographic and Economic Characteristics of Austin/Round Rock MSA AA	
<i>Population</i>	1,249,763
Number of Families	298,622
Number of Households	472,085
<i>Geographies</i>	
Number of Census Tracts/BNA	256
% Low-Income Census Tracts/BNA	8.20
% Moderate-Income Census Tracts/BNA	27.34
% Middle-Income Census Tracts/BNA	38.28
% Upper-Income Census Tracts/BNA	25.39
% N/A Census Tracts/BNA	0.78
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	59,438
2004 HUD-Adjusted MFI	68,600
<i>Economic Indicators</i>	
Unemployment Rate	2.22
2004 Median Housing Value	131,505
% of Households Below Poverty Level	10.00

Source: 2000 Census data and 2004 HUD updated income data.

Though the name changed from Austin/San Marcos MSA to Austin/Round Rock MSA, there were no changes to the number of counties included in the MSA from 1990 to 2000. Growth has been significant with more than a 47 percent increase from 846 thousand to 1.3 million. The number of tracts was increased from 239 to 256 between census years. Low-income tracts increased from 18 to 21 from 1990 to 2000. The number of moderate-income tracts rose from 56 to 70. Middle-income tracts went from 82 to 98 tracts, and upper income tracts increased from 56 to 65. In 1990, there were 27 undesignated tracts, but in 2000 there were only 2 reported. The updated median family income decreased slightly from \$71 thousand to \$69 thousand, but the median housing value increased significantly from \$78 thousand to \$132 thousand. During the evaluation period, LNB had two branches in the AA. However, the Mopac office was closed in 2004. The remaining office is in an upper-income tract, and management reports that the one location is not easily accessible for all areas of the AA.

The cost of living is high at 102 percent of the national level, but the data from the Economy.com website shows that the cost of housing is below the national level. The average housing price in 2005 was \$160 thousand, up from \$155 thousand in 2004. Projections are that prices will continue to rise. Employment in the construction industry has increased 5.3 percent from the prior year. There is an on-going demand for technical and professional expertise with Dell Computers, The University of Texas, Motorola, Inc., and other technology firms shown as the largest employers in the area. The University has a history of a high level of patents coming out of its research program. The website reports that heavy reliance on government cycles is somewhat of a drag on the otherwise strong economy.

LNB's deposit market share in Austin/Round Rock MSA AA is low at 0.13 percent. The bank ranks 48th of 61 financial institutions reporting insured deposits at June 30, 2004. Primary holders of deposits in the area are Bank of America, Wells Fargo, and Bank One. Other insured institutions operate a total of 328 branches, and LNB management states that the area has a number of credit unions as well. Management had reported that the large multi-national institutions are the primary

deposit institutions because of the convenience of multiple locations. LNB has tried to provide some community bank advantages to mid-size commercial borrowers in the AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

LENDING TEST

The bank's performance under the Lending Test is rated "Satisfactory". Based on a full-scope review, the bank's performance in the Lubbock County AA is satisfactory.

Conclusions for Lubbock County AA Full-Scope Review

LNB's lending performance is satisfactory in the full-scope Lubbock County AA. The volume of both small business and home mortgage lending is also satisfactory. For the years 2003 and 2004, LNB originated approximately 978 small business loans, totaling \$88 million. For the same years, LNB originated 547 home mortgage loans totaling \$47 million. LNB makes credit more accessible to local small businesses as an active Small Business Administration (SBA) lender. During the evaluation period, LNB originated 49 SBA loans totaling \$9.7 million. LNB also offers a home mortgage program called "Welcome Home Program" that provides down payment and closing cost assistance in the form of a gift from the Lubbock Housing Finance Corporation. This mortgage program is designed to make credit more available to low-income individuals who might not otherwise qualify for a conventional mortgage product. LNB has originated six loans under this program. This lending performance is favorable compared to local banks and indicates LNB's willingness to meet the credit needs of its community.

Loan-to-Deposit Ratio

LNB's loan-to-deposit (LTD) ratio is reasonable and meets the standard for satisfactory performance. The average quarterly LTD ratio from March 30, 1999 through June 30, 2005 was 65.5 percent. This average was compared to the quarterly average, over the same time period, of four similarly situated institutions, detailed in the table below. LNB's average LTD ratio is less than that of three of the comparable banks. The comparable banks have a combined average LTD ratio of 78.0 percent.

Several factors contribute to LNB's 244ul.lower LTD ratio. The most significant factor is the strong competition from local bank and non-bank institutions. Another factor is that LNB is not an active agriculture or consumer lender. Banks with higher LTD ratios are active in making agriculture and consumer loans. LNB does not have rural branches or the lending expertise to offer agriculture loans and has found it difficult to compete against local credit unions for consumer loans. However, LNB is planning a new consumer loan program in order to be more active in the consumer arena.

Further, LNB maintains a non-transaction deposit relationship averaging approximately \$55 million with one customer. Large deposits are also maintained for a local hospital. LNB continues to grow the loan portfolio, improving the LTD. The bank's LTD ratio increased from 47 percent at the March 8, 1999 review to 70 percent at June 30, 2005.

Loan-To-Deposit Ratios		
Institution	Total Assets \$000's (As of 06/30/05)	Average Loan – to-Deposit Ratio
American Bank of Commerce, Wolfforth	\$487,313	80.18%
City Bank, Lubbock	926,744	86.52%
First Bank & Trust, Lubbock	266,645	80.42%
The First National Bank of Bryan	409685	65.06%
Lubbock National Bank	420,790	65.45%

Source: Institution Reports of Condition from March 1999 to June 2005

Lending in Assessment Area

LNB's lending in their AAs exceeds the standard for satisfactory performance. A substantial majority of the number and dollar amount of home mortgage and small business loans evaluated were originated within the bank's AAs. As depicted in the table below, 92.02 percent of the number of loans and 88.51 percent of the dollar amount of loans were originated in LNB's AAs.

Lending in Lubbock County, Austin MSA, & College Station/Bryan MSA AAs										
Loan Sample	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2003-2004 HMDA	642	90.30%	69	9.70%	711	59,012	87.77%	8,220	12.23%	67,232
2003-2004 CRA	1,202	92.96%	91	7.04%	1,293	118,919	88.97%	14,886	11.13%	133,805
Total	1,844	92.02%	160	7.98%	2,004	177,931	88.51%	23,106	11.49%	201,037

Source: Loan Sample (Data reported under HMDA and CRA).

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

LNB's borrower distribution of home mortgage and small business loans is reasonable, given performance context issues, and meets the standard for satisfactory performance.

Because small business lending is the bank's primary business line and due to the performance context issues discussed below, the distribution of small business loans carried the most weight in determining lending performance. Home purchase loans were weighted second, with home improvement and home refinance products given little or no weight.

LNB's distribution of small loans to businesses is good. Loans to businesses with revenues of \$1 million or less represented 62 percent of reportable small business loans, which is near to the 65 percent of area businesses that reported revenues of less than \$1 million. LNB's distribution of home mortgage loans is adequate when considering the following performance context issues. Home improvement and home refinance loans are not primary loan products and are offered mainly on an accommodation basis. Also, Lubbock County has a lower than normal percentage of owner-occupied housing and a higher percentage of renters. This results from the over 25 thousand students attending Texas Tech University. It would be reasonable to assume that these college students/renters make up a meaningful portion of the low-income population in Lubbock County and are not in the market for home mortgage products. Another factor is that approximately 21 percent of the households in Lubbock County are below poverty level or on public assistance. These

individuals have a difficult time qualifying for conventional mortgage products. These performance context issues limit the opportunities to extend home mortgage products to low-income individuals in Lubbock County.

2003 - 2004 Borrower Distribution of Loans to Businesses for Lubbock County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65.10%	4.97%	29.93%	100%
% of Bank Loans in AA by #	61.76%	22.49%	15.75%	100%
% of Bank Loans in AA by \$	51.54%	36.25%	12.21%	100%

Source: Loan sample (Data reported under 2003 and 2004 CRA); Dunn and Bradstreet data.

2003 – 2004 Borrower Distribution of Residential Real Estate Loans for Lubbock County AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	20.63%		17.80%		20.74%		40.83%	
Loan Type(s)	% of Number	% of Amount						
Home Purchase	6.55%	3.15%	12.76%	10.31%	23.10%	17.94%	57.59%	68.60%
Home Improvement	0.00%	0.00%	3.23%	1.27%	12.90%	2.32%	83.87%	96.41%
Home Refinance	6.64%	2.54%	7.96%	5.03%	19.47%	11.09%	65.93%	81.34%

Source: Loan sample (Data reported under 2003 and 2004 HMDA); 2000 U.S. Census data.

Geographic Distribution of Loans

LNB’s geographic distribution of loans is reasonable and meets the standard for satisfactory performance.

Lubbock County has one low-income CT. The population in this tract is small at slightly over three thousand people, which represents only 1.26 percent of the total population. This low-income tract has very few owner-occupied housing units at 0.27 percent. Seventy-one percent of the housing units in this tract are multifamily. The median household income is only \$12.3 thousand with 46 percent of the household incomes below the poverty level, making it difficult to qualify for a conventional mortgage product. The percentage of small businesses located in this tract is also low at only 1.05 percent. Also, as previously discussed in the Performance Context section of this evaluation, this census tract is the subject of a major redevelopment project. These performance context issues result in limited opportunities to extend small business and home mortgage loans to this low-income tract.

The geographic distribution of small business loans is good. Performance context issues mitigate the poor distribution of small business loans to the low-income CT. Bank achieved this good performance through its branch lending located in a middle-income CT surrounded by moderate-income CT's which enabled the bank to successfully make loans in the moderate-income CT's. The distribution of small business loans to moderate-income CT's is good, as the percentage of small businesses loans originated is near to the percentage of small businesses located in the moderate-income tracts.

The geographic distribution of home mortgage loans is good given performance context issues. In assessing lending performance, the most weight was given to home purchase loans. Home purchase loans are a primary product, whereas home improvement and home refinance loans are offered primarily on an accommodation basis. No home mortgage loans were extended in the one low-income CT due to performance context issues. The distribution of home purchase loans to moderate-income CTs is excellent and exceeds the percentage of owner-occupied units in moderate-income tracts. The distribution of home improvement and home refinance loans to moderate-income tracts is lower than the percentage of owner-occupied housing in these tracts, but is afforded little weight in determining lending performance, as these are not primary loan products.

2003 – 2004 Geographic Distribution of Loans to Businesses in Lubbock County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	1.05%		24.76%		44.05%		30.13%	
LOANS	% of Number	% of Amount						
Small Business Loans	0.41%	0.15%	20.04%	20.66%	37.12%	37.54%	42.43%	41.65%

Source: Loan sample (Data reported under 2003 and 2004 CRA); Dunn and Bradstreet data

2003 – 2004 Geographic Distribution of Residential Real Estate loans in Lubbock County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of Owner Occupied Housing	0.27%		22.15%		44.41		33.71%	
LOANS	% of Number	% of Amount						
Home Purchase	0.00%	0.00%	26.90%	12.13%	40.69%	37.08%	32.41%	50.79%
Home Improvement	0.00%	0.00%	6.45%	7.82%	41.94%	36.61%	51.61%	55.57%
Home Refinance	0.00%	0.00%	6.64%	2.95%	42.92%	34.83%	50.44%	62.22%

Source: Loan sample (Data reported under 2003 & 2004 HMDA); 2000 U.S. Census data.

Responses to Complaints

There have been no consumer complaints relating to the bank’s Community Reinvestment Act performance during the evaluation period.

Conclusions for Prior Years and Areas Receiving Limited-Scope Reviews

Lending performance for home mortgage loans originated in years 2000 through 2002. Small business loans originated in 2002 were also evaluated, but not included in this Public Evaluation. Lending performance in the prior years is not inconsistent with lending performance in 2003 and 2004. Performance context issues that existed in 2003 and 2004 also existed in the prior years evaluated and mitigate weak performance in the distribution of home improvement and home refinance loans to low-income borrowers and geographies.

Based on limited-scope reviews, the bank’s performance under the Lending Test in the Austin MSA and College Station MSA AAs for years 2003 and 2004 is not inconsistent with the bank’s overall “Satisfactory” rating performance under the Lending Test.

Community Development Loans, Qualified Investments, and Community Development Services Test

The bank's performance under the Community Development Test is rated "Satisfactory." Based on a full-scope review, the bank's performance in the Lubbock County AA is satisfactory.

Community Development Loans

Qualifying community development loans are loans that meet the definition of community development, as defined in the CRA regulation. Opportunities have been limited in the Lubbock County AA. One of the major reasons is the large rehabilitation and revitalization project in the low- and moderate-income geographies that are in the north and east sections of the city. This project is led by the City of Lubbock and is well into development. Distressed properties have been purchased and demolished. Several multi-family residential complexes and business centers have been constructed in this area.

One loan totaling \$3.75 million was originated during the evaluation period to develop an apartment community located in a moderate-income census tract in northeast Lubbock. Subject is a campus style apartment community developed under the Low-Income Housing Tax Credit program (LIHTC). The community consists of 208 units with an average unit size of 916 sq ft. The property has a large community center, which includes classroom facilities allowing them to provide a Head Start Program for 3-5 year old children.

Community Development Investments

Qualifying investments are investments, deposits, membership shares, or grants that have as their primary purpose community development, as defined in the CRA regulation. The bank had an equity investment of \$100 thousand and 11 qualified donations totaling \$71 thousand in the Lubbock County AA. Investments support community services that target low- to moderate-income families and individuals. Qualified investments demonstrate an adequate level of responsiveness to identified community development needs. Specific examples of investments for qualifying community development organizations are described below.

High Plains Community Capital Corporation

LNB made an equity investment of \$100 thousand in High Plains Community Capital Corporation (HPCC). The HPCC is a regional multi-bank community development corporation whose primary purpose is to benefit low- and moderate-income people and/or areas by making non-traditional loans to small business owners. HPCC lending activities help to expand business opportunities, create jobs, and increase the supply of affordable housing. The HPCC makes loans to business located in fifteen counties situated on the South Plains.

Wheatley Elementary School

Title I School by the Texas Education Agency that is located in a moderate-income census tract. By definition, a Title I School has a school campus that has a poverty percentage of 40 percent or more. During the evaluation period, LNB donated 50 computers to the school for use by its students.

Lubbock County Foster Children

In 2003 and 2004, LNB donated bicycles and helmets for Christmas presents to foster

children in Lubbock County. Forty bicycles were donated each year to these children. In addition, in 2004 safety helmets were also provided. This program is part of an outreach by the bank to reach low- and moderate-income children.

The following table provides a recap of the bank’s community development investments and lending.

Community Development Investments and Lending			
Qualified Investments			
	AA Benefited	#	\$ Amount (000's)
Originated Investments	Lubbock	1	100
Originated Grants/Donations	Lubbock	11	71
Originated Grants/Donations	College Station/Bryan	3	2
Prior-Period Investments that Remain Outstanding	N/A	0	0
Total Qualified Investments		15	173
Unfunded Commitments*	N/A	0	0
Community Development Lending			
Originated CD Loans	Lubbock	1	3,750
Originated CD Loans	College Station/Bryan	1	1,700
Total CD Loans		2	5,450

**"Unfunded Commitments" means legally binding investment commitments that are tracked and recorded by the bank's financial reporting system.*

Community Development Services

The level of qualified community development services is adequate. Bank officers have provided technical assistance to organizations, which provide community services for low- and moderate-income persons, or serve the financial needs of small businesses in Lubbock County AA. The following are examples of qualifying community development services.

Lubbock Community Development & Services

This is a board representation for the City of Lubbock to review and approve financial appropriations for non-traditional financing needs. The needs that are considered include business, housing, city block development, renovation, revitalization and community development projects for low- and moderate-income individuals. Several recent projects have included a homebuyer down payment assistance program through the North/East Lubbock Community Development Corporation and a new Head Start facility in East Lubbock. A bank officer serves on the Board and has provided technical financial expertise.

Wheatley Elementary School

This is a Texas Education Agency Title I School located in a moderate-income census tract. By definition, a Title I School has a school campus that has a poverty percentage of 40 percent or more. Bank officers have provided financial literacy education to students. In addition, a bank officer is a member of the Title I School Campus Performance Objective Council and provides technical financial expertise. This committee is required by the state

and determines the application of Title I funds.

Surcharge-Free Program for FEMA and American Red Cross Debit Cardholders

LNB is providing surcharge free access to their ATM/Debit Card network to the victims of Katrina by providing access to funds on FEMA and American Red Cross debit cards, beginning September 15, 2005 and continuing through January 9, 2006.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on a limited-scope review, the bank's performance under the Community Development Test in the College Station/Bryan MSA AA is not inconsistent with the bank's overall "Satisfactory" rating performance under the Community Development Test. However, based on a limited-scope review, the bank's performance in the Austin/Round Rock MSA AA is weaker than the bank's overall "Satisfactory" rating under the Community Development Test. LNB has not made any qualifying community development loans or investments, nor conducted any qualifying services in Austin/Round Rock MSA AA. Minimal weight was given to the community development results of the limited-scope Austin MSA AA given the bank's limited market share of deposits and loans.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.